

CITY OF ALBIA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

Peak & Gerdes, LLP  
Certified Public Accountants  
1051 Office Park Road  
West Des Moines, IA 50265

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City of Albia

Officials

<u>Name</u>	<u>Title</u> <b>(Before January, 2006)</b>	<u>Term Expires</u>
Richard Clark	Mayor	January 1, 2006
Jeff Stoffa	Council Member	January 1, 2006
Kelly Freeman	Council Member	January 1, 2006
Norm Braun	Council Member	January 1, 2006
Tim Stoller	Council Member	January 1, 2006
Larry Johnson	Council Member	January 1, 2006
Jan Haselhuhn	Council Member	January 1, 2008
Linda Roorda	City Clerk/Treasurer	January 1, 2006
John Pabst	Attorney	January 1, 2006

	<b>(After January, 2006)</b>	
Richard Clark	Mayor	January 1, 2008
Kelly Freeman	Council Member	January 1, 2008
Jan Haselhuhn	Council Member	January 1, 2008
Larry Johnson	Council Member	January 1, 2008
Jeff Stoffa	Council Member	January 1, 2010
Norm Braun	Council Member	January 1, 2010
Tim Stoller	Council Member	January 1, 2010
Linda Roorda	City Clerk/Treasurer	January 1, 2008
John Pabst	Attorney	January 1, 2008

Library Board

Dave Paxton	Library Trustee	July 1, 2006
Dorothy Cabell	Library Trustee	July 1, 2006
Lelah Marlin	Library Trustee	July 1, 2008
Lois Mick	Library Trustee	July 1, 2008
Matt Foster	Library Trustee	July 1, 2008
Marty Ryan	Library Trustee	July 1, 2008
Sharon Crall	Library Trustee	July 1, 2008
Joe Mahoney	Library Trustee	July 1, 2008
Joe Starcevic	Library Trustee	July 1, 2011

Cemetery Board

Marge Adler	Cemetery Trustee	July 1, 2006
Coleen Putnam *	Cemetery Trustee	July 1, 2008
Kenny Williams *	Cemetery Trustee	July 1, 2008
Mary Woodcock	Cemetery Trustee	July 1, 2008
George Mosley	Cemetery Trustee	July 1, 2010
Roland Barnes	Cemetery Trustee	July 1, 2010
Lester Poole	Cemetery Trustee	July 1, 2010

\* - Resigned prior to the end of the fiscal year. Position currently vacant.

# City of Albia

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Planning and Zoning</u>		
Rich Bartels	Commissioner	February 1, 2008
John Freshwater	Commissioner	February 1, 2009
Rino Della Vedova	Commissioner	February 1, 2009
Homer Renwick	Commissioner	February 1, 2010
Ray Vitko, Jr.	Commissioner	February 1, 2010
Chris Anderson	Commissioner	February 1, 2011
Robert Reed	Commissioner	February 1, 2011
<u>Board of Adjustment and Review</u>		
Steve Goodlow	Board Member	August 3, 2007
Kenneth Geyer	Board Member	August 3, 2008
Andy Winborn	Board Member	August 3, 2009
Sue Palmer	Board Member	August 3, 2010
E.H. Scales	Board Member	August 3, 2011
<u>Historic Preservation Board</u>		
Michael Judge	Board Member	January 1, 2007
Camillia Williamson	Board Member	January 1, 2007
John Scieszinski	Board Member	January 1, 2007
Matt Foster	Board Member	January 1, 2008
Robert Reed	Board Member	January 1, 2008
<u>Low-Rent Housing</u>		
Dan Johnson	Board Member	May 8, 2007
Donna Judge	Board Member	May 8, 2007
E.H. Scales	Board Member	May 8, 2007
Mary Lou Rinehart	Board Member	May 8, 2008
Marilyn Koffman	Board Member	May 8, 2008
<u>Albia Waterworks Board</u>		
John Scieszinski	Board Member	April 2, 2007
Bob Russell	Board Member	April 2, 2009
Jack Scieszinski	Board Member	April 2, 2011
<u>Albia Parks Commission</u>		
Ted Banning	Commissioner	October 18, 2006
Steve Parks	Commissioner	October 18, 2006
Dan Tometich	Commissioner	October 18, 2007
Julie Baylor	Commissioner	October 18, 2007
Kristi Haas	Commissioner	October 18, 2008
Linda Roorda	Commissioner	Indefinite
Jan Haselhuhn	Commissioner	Indefinite

City of Albia

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Albia, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Albia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Albia as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2006 on our consideration of the City of Albia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albia's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

July 14, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Albia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- \* Receipts and transfers of the City's governmental activities increased 64.7%, or approximately \$1,609,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$136,000, intergovernmental receipts increased approximately \$324,000, and bond proceeds increased approximately \$838,000.
- \* Disbursements of the City's governmental activities increased 16.4%, or approximately \$588,000, in fiscal 2006 from fiscal 2005. Debt service disbursements increased approximately \$1,060,000, and capital projects disbursements decreased approximately \$592,000.
- \* The City's total cash basis net assets decreased 5.4%, or approximately \$97,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$76,000 and the assets of the business type activities decreased by approximately \$21,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the city's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.



## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statement**

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

- (1) Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- (2) Business Type Activities include the landfill, airport and the sanitary sewer system. These activities are financed primarily by user charges.
- (3) The Component unit includes the activities of the City's Municipal Waterworks. The City has included the Waterworks activities because its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

### **Fund Financial Statements**

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Sewer and Airport funds, considered to be major funds of the City. The Landfill fund is considered to be non-major fund of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1.545 million to \$1.469 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

### Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Year ended <u>June 30, 2006</u>	Year ended <u>June 30, 2005</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 105	56
Operating grants, contributions and restricted interest	418	396
Capital grants, contributions and restricted interest	494	138
General receipts:		
Property tax	1,083	947
Local option sales tax	579	382
Grants and contributions not restricted to specific purposes	14	18
Unrestricted investment earnings	7	9
Bond proceeds	1,338	500
Miscellaneous	15	21
Sale of assets	15	7
Transfers, net	<u>29</u>	<u>14</u>
Total operating receipts and transfers	<u>4,097</u>	<u>2,488</u>
Disbursements:		
Public safety	505	524
Public works	369	362
Culture and recreation	233	153
Community and economic development	12	33
General government	301	228
Debt service	1,478	417
Capital projects	<u>1,275</u>	<u>1,868</u>
Total disbursements	<u>4,173</u>	<u>3,585</u>
Increase (decrease) in cash basis net assets	(76)	(1,097)
Cash basis net assets beginning of year	<u>1,545</u>	<u>2,642</u>
Cash basis net assets end of year	<u>\$1,469</u>	<u>1,545</u>

The City's total receipts and transfers for governmental activities increased by 64.7%, or 1,609,000. The total cost of all programs and services increased by approximately \$588,000, or 16.4%, with no new programs added this year. The significant increase in receipts was primarily the result of bond proceeds.

The City's property tax collections increased approximately \$136,000 from fiscal 2005 to fiscal 2006. Approximately \$1,083,000 and \$947,000 in property taxes were collected in fiscal 2006 and 2005, respectively. Property tax receipts are budgeted to remain relatively the same in fiscal 2007.

The cost of all governmental activities this year was \$4.173 million compared to \$3.585 million last year. However, as shown on the Statement of Activities and Net Assets on pages 15-16, the amount taxpayers ultimately financed for these activities was only \$3.156 million because some of the cost was paid by those directly benefited from the programs (\$105,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$912,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$590,000 to approximately \$1,017,000, principally due to a block grant received to fund the cost of water main replacement. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,156,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)

	Year ended <u>June 30, 2006</u>	Year ended <u>June 30, 2005</u>
Receipts:		
Program receipts:		
Charges for service		
Airport	\$ 4	5
Sewer	318	323
Landfill	16	16
Capital grants, contributions and restricted interest	236	-
General receipts:		
Unrestricted interest on investments	7	8
Miscellaneous	<u>-</u>	<u>9</u>
Total receipts	<u>581</u>	<u>361</u>
Disbursements and transfers:		
Airport	253	3
Sewer	304	404
Landfill	16	15
Transfers	<u>29</u>	<u>14</u>
Total disbursements and transfers	<u>602</u>	<u>436</u>
Increase (decrease) in cash balance	(21)	(75)
Cash basis net assets beginning of year	<u>267</u>	<u>342</u>
Cash basis net assets end of year	<u>\$ 246</u>	<u>267</u>

Total business type activities receipts for the fiscal year were \$.581 million compared to \$.361 million last year. This significant increase was due primarily to the grants received in fiscal 2006 for an airport project. The cash balance decreased by approximately \$21,000 from the prior year because costs in the sewer fund and airport fund both exceeded income in those funds. Total disbursements and transfers for the fiscal year increased by 38% to a total of \$.602 million.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Albia completed the year, its governmental funds reported a combined fund balance of \$1,468,951, a decrease of more than \$76,000 below last years total of \$1,544,993. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- \* The General Fund cash balance decreased \$39,554 from the prior year to \$115,218. This decrease was just due to spending more money than was received.

- \* The Debt Service Fund cash balance increased by \$10,815 to \$11,089 during the fiscal year. Bond principal and interest payments and bond proceeds significantly increased in fiscal 2006, due to the refinancing of an old bond issue. This refinancing significantly lowered the interest rate paid on the bonds.
- \* The Aquatic Center Fund cash balance decreased by \$528,412 during the fiscal year. This decrease is due to the construction costs incurred on the new aquatic center during the fiscal year. As of the end of the fiscal year, construction on the aquatic center was virtually complete.
- \* The Waterworks Main Fund was established in the previous fiscal year to account for a block grant the City received for water main replacements in the City. As soon as the block grant monies are received, the vendors are paid. Total receipts and disbursements in this fund were each over \$400,000 in the fiscal year.
- \* The Street Paving Project Fund cash balance increased by \$491,914 during the fiscal year. Proceeds from the sale of bonds were received into this fund, and the proceeds will be used to pay the costs of street repair in the City.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- \* The Sewer Fund cash balance decreased by \$9,702 to \$156,695, due primarily to the fact that monies spent exceeded monies received in the fiscal year.
- \* The Airport Fund cash balance decreased by \$13,416 to \$11,584, due primarily to the disbursement of the local match which was required to be spent in order to receive a federal grant.

#### **BUDGETARY HIGHLIGHTS**

During the course of the year, the City amended its budget one time. The budget was amended because of costs associated with rising fuel prices and donations received, and the related disbursements of those donations for library improvements.

#### **DEBT ADMINISTRATION**

At June 30, 2006, the City of Albia had approximately \$4,943,000 in bonds and other long-term debt, compared to approximately \$5,007,000 last year.

Outstanding Debt at Year-End (Expressed in Thousands)		
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
General Obligation Bonds and Notes	\$4,552	4,501
Revenue Bonds	305	400
Lease – Purchase Agreement	<u>86</u>	<u>106</u>
Total	<u>\$4,943</u>	<u>5,007</u>

Debt decreased as a result of the payment of the scheduled payments, which exceeded the amount of new debt obtained in the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The Issuer's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2004	\$98,349,092
Debt Limit	<u>.05</u>
	<u>\$4,917,455</u>

The City's outstanding general obligation debt of \$4,552,000 is below the constitutional debt limit of \$4,917,455.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

City of Albia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are approximately \$4.0 million, keeping in line with 2006 budget year.

#### **CONTRACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Roorda, City Clerk, 120 South "A" Street, Albia, Iowa 52531.

## Basic Financial Statements

City of Albia

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs</b>				
Primary Government:				
Governmental activities:				
Public safety	\$ 504,928	13,389	38,837	6,619
Public works	369,213	2,449	310,287	-
Culture and recreation	233,024	78,803	63,422	57,976
Community and economic development	11,714	-	5,519	-
General government	301,257	10,293	-	-
Debt service	1,478,044	-	-	-
Capital projects	1,275,365	-	-	429,804
Total governmental activities	4,173,545	104,934	418,065	494,399
Business type activities:				
Sewer	304,660	318,219	-	-
Airport	253,625	3,800	-	236,259
Landfill	15,811	15,815	-	-
Total business type activities	574,096	337,834	-	236,259
Total primary government	\$ 4,747,641	442,768	418,065	730,658
Component unit:				
Water utility	\$ 1,751,902	1,075,308	-	-
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds (net of \$6,590 discount)				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Water Utility
(446,083)	-	(446,083)	-
(56,477)	-	(56,477)	-
(32,823)	-	(32,823)	-
(6,195)	-	(6,195)	-
(290,964)	-	(290,964)	-
(1,478,044)	-	(1,478,044)	-
(845,561)	-	(845,561)	-
(3,156,147)	-	(3,156,147)	-
-	13,559	13,559	-
-	(13,566)	(13,566)	-
-	4	4	-
-	(3)	(3)	-
(3,156,147)	(3)	(3,156,150)	-
-	-	-	(676,594)
761,577	-	761,577	-
321,931	-	321,931	-
579,090	-	579,090	-
13,504	-	13,504	-
7,128	7,393	14,521	6,366
1,338,410	-	1,338,410	682,618
14,720	-	14,720	9,333
15,107	-	15,107	-
28,638	(28,638)	-	-
3,080,105	(21,245)	3,058,860	698,317
(76,042)	(21,248)	(97,290)	21,723
1,544,993	267,301	1,812,294	287,408
\$ 1,468,951	246,053	1,715,004	309,131
\$ 60,642	-	60,642	-
11,089	117,213	128,302	172,711
1,282,002	-	1,282,002	74,275
115,218	128,840	244,058	62,145
\$ 1,468,951	246,053	1,715,004	309,131



Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

	Capital Projects					Other	
	General	Debt Service	Aquatic Center	Waterworks Main	Street	Nonmajor Governmental Funds	Total
					Paving Project		
Receipts:							
Property tax	\$ 582,277	321,931	-	-	-	179,300	1,083,508
Other city tax	13,504	-	579,090	-	-	-	592,594
Licenses and permits	12,467	-	-	-	-	-	12,467
Use of money and property	9,755	-	2,344	-	-	6,718	18,817
Intergovernmental	72,426	-	-	429,804	-	313,000	815,230
Charges for service	71,245	-	7,557	-	-	-	78,802
Miscellaneous	20,593	-	30,512	-	-	62,825	113,930
Total receipts	782,267	321,931	619,503	429,804	-	561,843	2,715,348
Disbursements:							
Operating:							
Public safety	473,805	-	-	-	-	31,123	504,928
Public works	1,681	-	-	-	-	367,532	369,213
Culture and recreation	148,918	-	10,738	-	-	73,368	233,024
Community and economic development	-	-	-	-	-	11,714	11,714
General government	187,638	-	-	-	-	113,619	301,257
Debt service	-	1,478,044	-	-	-	-	1,478,044
Capital projects	-	-	853,917	418,402	3,046	-	1,275,365
Total disbursements	812,042	1,478,044	864,655	418,402	3,046	597,356	4,173,545
Excess (deficiency) of receipts over (under) disbursements	(29,775)	(1,156,113)	(245,152)	11,402	(3,046)	(35,513)	(1,458,197)
Other financing sources (uses):							
Bond proceeds (net of \$6,590 discount)	-	843,450	-	-	494,960	-	1,338,410
Sale of capital assets	1,801	-	-	-	-	13,306	15,107
Operating transfers in	-	323,478	-	-	-	-	323,478
Operating transfers out	(11,580)	-	(283,260)	-	-	-	(294,840)
Total other financing sources (uses)	(9,779)	1,166,928	(283,260)	-	494,960	13,306	1,382,155
Net change in cash balances	(39,554)	10,815	(528,412)	11,402	491,914	(22,207)	(76,042)
Cash balances beginning of year	154,772	274	893,024	(11,401)	3,547	504,777	1,544,993
Cash balances end of year	\$ 115,218	11,089	364,612	1	495,461	482,570	1,468,951
<b>Cash Basis Fund Balances</b>							
Reserved:							
Debt Service	\$ -	11,089	-	-	-	-	11,089
Unreserved:							
General fund	115,218	-	-	-	-	-	115,218
Special revenue funds	-	-	-	-	-	311,551	311,551
Capital projects fund	-	-	364,612	1	495,461	-	860,074
Permanent funds	-	-	-	-	-	171,019	171,019
Total cash basis fund balances	\$ 115,218	11,089	364,612	1	495,461	482,570	1,468,951

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2006

	Sewer	Airport	Other Nonmajor Proprietary Fund - Landfill	Total
Operating receipts:				
Use of money and property	\$ -	3,800	-	3,800
Charges for service	318,219	-	15,815	334,034
Total operating receipts	318,219	3,800	15,815	337,834
Operating disbursements:				
Business type activities	192,358	253,625	15,811	461,794
Total operating disbursements	192,358	253,625	15,811	461,794
Excess (deficiency) of operating receipts over (under) operating disbursements	125,861	(249,825)	4	(123,960)
Non-operating receipts (disbursements):				
Intergovernmental	-	236,259	-	236,259
Interest on investments	5,377	150	1,866	7,393
Debt service	(112,302)	-	-	(112,302)
Total non-operating receipts (disbursements)	(106,925)	236,409	1,866	131,350
Excess (deficiency) of receipts over (under) disbursements	18,936	(13,416)	1,870	7,390
Other financing (uses):				
Operating transfers out	(28,638)	-	-	(28,638)
Net change in cash balances	(9,702)	(13,416)	1,870	(21,248)
Cash balances beginning of year	166,397	25,000	75,904	267,301
Cash balances end of year	\$ 156,695	11,584	77,774	246,053
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 117,213	-	-	117,213
Unreserved	39,482	11,584	77,774	128,840
Total cash basis fund balances	\$ 156,695	11,584	77,774	246,053

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Agency Fund

As of and for the year ended June 30, 2006

	<u>UDAG</u>
Operating receipts:	
Miscellaneous	<u>\$ 500,000</u>
Total operating receipts	<u>500,000</u>
Operating disbursements:	
Non program	<u>500,000</u>
Total operating disbursements	<u>500,000</u>
Excess of operating receipts over operating disbursements	<u>-</u>
Cash balance beginning of year	<u>-</u>
Cash balance end of year	<u><u>\$ -</u></u>

See notes to financial statements.

# City of Albia

## Notes to Financial Statements

June 30, 2006

### (1) Summary of Significant Accounting Policies

The City of Albia is a political subdivision of the State of Iowa located in Monroe County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, City of Albia has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Albia (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

#### Discretely Presented Component Unit

The Albia Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a three-member board appointed by the City Council and the Waterworks operating budget is subject to the approval of the City Council.

#### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Area XV Regional Planning Commission, Monroe County Assessor's Conference Board and the Monroe County Joint E-911 Service Board.

## B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets.

Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Aquatic Center Fund is used to account for the construction of the new aquatic center.

The Waterworks Main Fund is used to account for the construction of the repair of water mains in the City.

The Street Paving Project Fund is used to account for costs associated with major paving projects of the City.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Airport Fund accounts for the operation of and the related construction at the City's airport.

C. Measurement Focus and Basis of Accounting

The City of Albia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, notes payable and revenue bonds are as follows:

Primary Government								
Year Ending June 30,	General Obligation Bonds		Notes Payable		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 440,000	\$ 167,921	\$ 10,000	\$ 2,200	\$ 100,000	\$ 12,912	\$ 550,000	\$ 183,033
2008	550,000	152,051	10,000	1,777	100,000	8,713	660,000	162,541
2009	405,000	134,001	10,000	1,354	105,000	4,462	520,000	139,817
2010	435,000	119,798	11,000	931	-	-	446,000	120,729
2011	595,000	103,879	11,000	465	-	-	606,000	104,344
2012	395,000	79,905	-	-	-	-	395,000	79,905
2013	410,000	65,482	-	-	-	-	410,000	65,482
2014	420,000	50,092	-	-	-	-	420,000	50,092
2015	445,000	33,928	-	-	-	-	445,000	33,928
2016	405,000	16,278	-	-	-	-	405,000	16,278
	<u>\$ 4,500,000</u>	<u>\$ 923,335</u>	<u>\$ 52,000</u>	<u>\$ 6,727</u>	<u>\$ 305,000</u>	<u>\$ 26,087</u>	<u>\$ 4,857,000</u>	<u>\$ 956,149</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Even though not required, the City has established a reserve account for its revenue bonds.

#### (4) Lease Purchase Obligations

The City is purchasing a Street Sweeper under a capital lease contract. Future payments in relation to this lease is as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2007	\$ 20,317	\$ 3,542	\$ 23,859
2008	21,150	2,709	23,859
2009	22,016	1,842	23,858
2010	22,919	939	23,858
Total	<u>\$ 86,402</u>	<u>\$ 9,032</u>	<u>\$ 95,434</u>

#### (5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$39,943, \$38,027 and \$36,448 respectively, equal to the required contributions for each year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, holiday and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2006 primarily relating to the General Fund, was \$18,389. The liability has been computed based on rates of pay in effect at June 30, 2006.

**(7) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the Public Safety, Public Works and Culture and Recreation functions exceeded the amounts budgeted.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 11,580
	Capital Projects:	
	Aquatic Center	283,260
	Enterprise:	
	Sewer	<u>28,638</u>
Total		<u>\$ 323,478</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials, totaling \$50,728 during the year ended June 30, 2006.

**(10) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.



Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$55,998.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(11) Commitments**

The City has uncompleted contracts for approximately \$325,000 for construction of a new aquatic center, airport improvements, street improvements and the purchase of a fire truck. The contracts will be paid as work on the projects progress or when the merchandise is received. These projects should be completed in fiscal year 2007.

The purchase of the fire truck, with a balance owed of approximately \$170,000, will be paid for with a grant and loan from the federal government. The rest of the projects will be primarily paid with existing cash reserves on hand.

**(12) Grant Award**

In the spring of 2004, the City received a \$600,000 Community Development Block Grant for the repair of water lines in the city. Approximately \$110,000 of this grant remains to be drawn as of June 30, 2006. The remaining local match on this grant is approximately \$152,000, which will consist of a loan from the State of Iowa Revolving Loan Fund through the Iowa Department of Natural Resources. The Albia Municipal Waterworks will be responsible for providing the local match on this project.

**(13) Contingency**

In prior years, the City received payments in lieu of taxes from the local housing agency. However it was later determined that some of these funds should have been distributed to the other political subdivisions in the county. The City Attorney's position was that the City owed the other political subdivisions in the County for the past five years only, which would amount to approximately \$21,000. However, in fiscal year 2004, the City agreed to pay approximately \$64,000 to the other political subdivisions in settlement of the payments in lieu of taxes from the local housing agency. The City and other political subdivisions signed an agreement whereby the other political subdivisions will receive the City's share of the payments in lieu of taxes until the City's liability has been satisfied. At June 30, 2006, the City owed over \$58,000 to the other political subdivisions.

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

**(14) Reclassification**

In order to properly reflect the purpose of the fund, the Street Paving Project Fund is shown in the Capital Projects Fund type. In the prior year, this fund was shown in the Special Revenue Fund type. This reclassification has no effect on the beginning cash balances of the governmental funds, in total.

## Required Supplementary Information

City of Albia

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds - Primary Government

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 1,083,508	-	1,083,508	1,054,837	1,054,837	28,671
Other city tax	592,594	-	592,594	371,114	1,716,114	(1,123,520)
Licenses and permits	12,467	-	12,467	11,000	11,000	1,467
Use of money and property	18,817	11,193	30,010	19,216	19,216	10,794
Intergovernmental	815,230	236,259	1,051,489	720,100	720,100	331,389
Charge for service	78,802	334,034	412,836	738,682	704,046	(291,210)
Miscellaneous	113,930	-	113,930	3,500	49,500	64,430
Total receipts	2,715,348	581,486	3,296,834	2,918,449	4,274,813	(977,979)
Disbursements:						
Public safety	504,928	-	504,928	443,070	496,070	(8,858)
Public works	369,213	-	369,213	344,848	364,848	(4,365)
Culture and recreation	233,024	-	233,024	174,867	220,867	(12,157)
Community and economic development	11,714	-	11,714	42,000	42,000	30,286
General government	301,257	-	301,257	362,267	372,267	71,010
Debt service	1,478,044	-	1,478,044	318,479	1,663,479	185,435
Capital projects	1,275,365	-	1,275,365	1,714,313	1,878,313	602,948
Business type activities	-	574,096	574,096	842,964	713,500	139,404
Total disbursements	4,173,545	574,096	4,747,641	4,242,808	5,751,344	1,003,703
Excess (deficiency) of receipts over (under) disbursements	(1,458,197)	7,390	(1,450,807)	(1,324,359)	(1,476,531)	25,724
Other financing sources, net	1,382,155	(28,638)	1,353,517	-	266,000	1,087,517
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(76,042)	(21,248)	(97,290)	(1,324,359)	(1,210,531)	1,113,241
Balances beginning of year	1,544,993	267,301	1,812,294	3,906,515	3,906,515	(2,094,221)
Balances end of year	\$ 1,468,951	246,053	1,715,004	2,582,156	2,695,984	(980,980)

See accompanying independent auditor's report.

City of Albia

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,508,536. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation functions.

## Other Supplementary Information

City of Albia

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special			
	Road Use Tax	Police Department	Employee Benefits	Library
Receipts:				
Property tax	\$ -	-	179,300	-
Use of money and property	-	-	-	1,371
Intergovernmental	310,287	-	-	2,713
Miscellaneous	-	4,347	818	55,632
Total receipts	310,287	4,347	180,118	59,716
Disbursements:				
Operating:				
Public safety	-	6,096	25,027	-
Public works	349,073	-	18,459	-
Culture and recreation	-	-	12,878	60,490
Community and economic development	-	-	-	-
General government	-	-	113,619	-
Total disbursements	349,073	6,096	169,983	60,490
Excess (deficiency) of receipts over (under) disbursements	(38,786)	(1,749)	10,135	(774)
Other financing sources:				
Sale of capital assets	-	13,306	-	-
Net change in cash balances	(38,786)	11,557	10,135	(774)
Cash balances beginning of year	99,428	12,436	8,431	11,844
Cash balances end of year	\$ 60,642	23,993	18,566	11,070
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 60,642	23,993	18,566	11,070
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 60,642	23,993	18,566	11,070

See accompanying independent auditor's report.

Cooper Estate Bequest	Cemetery Memorials	Revenue			Permanent		Total
		Special Assessment Bonds	Historical Preservation Board		Cemetery Perpetual Care and Memorial	Library Endowment	
-	-	-	-	-	-	-	179,300
5,321	-	-	-	-	26	-	6,718
-	-	-	-	-	-	-	313,000
161	-	-	37	1,830	-	-	62,825
5,482	-	-	37	1,856	-	-	561,843
-	-	-	-	-	-	-	31,123
-	-	-	-	-	-	-	367,532
-	-	-	-	-	-	-	73,368
9,315	-	-	2,399	-	-	-	11,714
-	-	-	-	-	-	-	113,619
9,315	-	-	2,399	-	-	-	597,356
(3,833)	-	-	(2,362)	1,856	-	-	(35,513)
-	-	-	-	-	-	-	13,306
(3,833)	-	-	(2,362)	1,856	-	-	(22,207)
138,559	2,106	32,214	30,596	74,685	94,478		504,777
134,726	2,106	32,214	28,234	76,541	94,478		482,570
134,726	2,106	32,214	28,234	-	-		311,551
-	-	-	-	76,541	94,478		171,019
134,726	2,106	32,214	28,234	76,541	94,478		482,570



City of Albia

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds and Interest Due and Unpaid
General Obligation Bonds and Notes-									
Corporate Purpose Bonds	August 1, 1995	4.10 to 5.90%	\$ 760,000	380,000	-	380,000	-	21,353	-
Street Improvement Bonds	August 1, 1997	4.25 to 5.00%	1,000,000	615,000	-	615,000	-	30,055	-
Street Improvement Bonds	July 1, 1998	4.20 to 4.70%	775,000	475,000	-	50,000	425,000	21,933	-
Fire Equipment Note	May 4, 1999	4.23%	108,000	61,000	-	9,000	52,000	2,580	-
Corporate Purpose Bonds	December 1, 2002	1.90 to 4.35%	520,000	470,000	-	40,000	430,000	17,275	-
Swimming Pool Bonds	December 1, 2003	2.25 to 4.00%	2,000,000	2,000,000	-	-	2,000,000	68,413	-
Swimming Pool Bonds	June 1, 2005	2.85 to 3.10%	500,000	500,000	-	200,000	300,000	14,848	-
Corporate Purpose Bonds	May 25, 2006	3.70 to 4.05%	1,345,000	-	1,345,000	-	1,345,000	-	-
Total				\$ 4,501,000	1,345,000	1,294,000	4,552,000	176,457	-
Revenue Bonds-									
Sewer Revenue Refunding	June 1, 1999	3.60 to 4.25%	\$ 595,000	400,000	-	95,000	305,000	16,903	-
Lease Purchase Agreement- Equipment	September 29, 2004	4.10%	\$ 105,919	105,919	-	19,517	86,402	4,342	-

See accompanying independent auditor's report.

## June 30, 2006

Sewer Revenue Refunding Bonds				
Year Ending June 30,	Issued June 1, 1999		Total Revenue Notes	
	Interest Rates	Amount		
2007	4.20%	\$ 100,000	\$100,000	
2008	4.25%	100,000	100,000	
2009	4.25%	105,000	105,000	
		<u>\$ 305,000</u>	<u>\$305,000</u>	

See accompanying independent auditor's report.

## City of Albia

## Schedule 4

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 1,083,508	946,940	950,378	946,568
Other city tax	592,594	395,200	132,780	12,229
Licenses and permits	12,467	12,251	10,933	10,435
Use of money and property	18,817	50,775	51,900	37,023
Intergovernmental	815,230	491,131	403,254	628,196
Charges for service	78,802	23,630	6,588	38,705
Special assessments	-	-	5,269	-
Miscellaneous	113,930	46,933	123,574	144,809
Total	<u>\$ 2,715,348</u>	<u>1,966,860</u>	<u>1,684,676</u>	<u>1,817,965</u>
Disbursements:				
Operating:				
Public safety	\$ 504,928	523,795	452,930	445,431
Public works	369,213	362,559	352,137	305,101
Culture and recreation	233,024	152,510	193,891	268,111
Community and economic development	11,714	32,956	47,637	18,382
General government	301,257	228,492	289,948	309,765
Debt service	1,478,044	417,219	387,104	474,038
Capital projects	1,275,365	1,867,844	235,007	176,612
Total	<u>\$ 4,173,545</u>	<u>3,585,375</u>	<u>1,958,654</u>	<u>1,997,440</u>

See accompanying independent auditor's report.

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct -			
U.S. Department of Agriculture - Community Facilities Loans	10.766	N/A	\$ 6,619
Federal Aviation Administration - Airport Improvement Program	20.106	3-19-0001-02 3-19-0001-03	147,244 93,699
Subtotal - Direct			<u>247,562</u>
Indirect -			
U.S. Department of Housing and Urban Development - Iowa Department of Economic Development - Community Development Block Grants/State's Program - Passed through to Albia Municipal Waterworks	14.228	04-WS-003	418,402
Department of Homeland Security - Iowa Department of Public Defense - Iowa Homeland Security and Emergency Management Division - Assistance to Firefighters Grant	97.044	N/A	<u>16,254</u>
Subtotal - Indirect			<u>434,656</u>
Total			<u><u>\$ 682,218</u></u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Albia and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Albia, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 14, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Albia's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-C-06 are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Albia and other parties to whom the City of Albia may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Albia during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP  
Certified Public Accountants

July 14, 2006

PEAK & GERDES, LLP  
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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Albia, Iowa with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City of Albia's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Albia's management. Our responsibility is to express an opinion on the City of Albia's compliance based on our audit.

The City of Albia, Iowa's basic financial statements include the operations of the Albia Municipal Waterworks, which received \$695,118 in federal awards that is not included in the schedule during the year ended June 30, 2006. Our audit, described below, did not include the operations of the Albia Municipal Waterworks because the Waterworks had a separate audit performed in accordance with OMB Circular A-133, and a report has been issued under separate cover.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about the City of Albia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis of our opinion. Our audit does not provide a legal determination of the City of Albia's compliance with those requirements.

In our opinion, the City of Albia complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-06 in the accompanying Schedule of Finding and Questioned Costs.

Internal Control Over Compliance

The management of the City of Albia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Albia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Albia's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described as items III-B-06 and III-C-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-B-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Albia and other parties to whom the City of Albia may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than there specified parties.

Peak & Gerdes, LLP  
Certified Public Accountants

July 14, 2006



City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Albia did not qualify as a low-risk auditee.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-06 Payroll Procedures – Instances were noted where employee I-9's were either not located or incomplete. A full-time employee was not required to work full-time. Authorization for employee payroll deductions could not always be located. Also, a portion of salaries charged to the Road Use Tax Fund represented time incurred on non-road related activities. The City has implemented an IRS Section 125 Plan; however, the City has not obtained plan approval from the IRS.

Recommendation - Properly completed I-9's should also be on file for all applicable employees. The City should ensure that full-time employees are required to work full-time. Also, procedures should be implemented to ensure signed authorizations for employee payroll deductions are obtained. In addition, only salaries related to time incurred on road related activities should be charged to the Road Use Tax Fund. The City should also obtain IRS approval of the Section 125 Plan.

Response - We will implement these recommendations to the best of our ability.

Conclusion - Response accepted.

- II-C-06 Records of Account - The Albia Police Department maintains the accounting records and bank statements pertaining to two different bank accounts. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." In addition, some funds are not recorded by the City either manually or on the computer.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be recorded on the Clerk's records. In addition, the City should record all funds on its computer system.

Response – We will review this situation.

Conclusion - Response accepted.

- II-D-06 Accounting Records – Instances were noted where receipts and disbursements were not always properly classified in the general ledger. Also, the City's general ledger account structure does not consistently follow the requirements as outlined by the City Finance Committee.

Recommendation - The City should implement procedures to ensure all receipts and disbursements are properly classified in the general ledger, and that the account structure follows the requirements as outlined by the City Finance Committee.

Response – We will work on the proper classification of receipts and disbursements, and ensure compliance with the requirements as outlined by the City Finance Committee.

Conclusion – Response accepted.

- II-E-06 County 28-E Agreement – The City has a 28E agreement with Monroe County which requires the County to pay the City, within 30 days of receipt, the amount of local option sales tax monies it receives from the State of Iowa. We noted as of June 30, 2006, the County owes the City an indeterminate amount of sales tax monies from the month of May 2006, which was due to the City in June, 2006.

Recommendation – The City consult with legal counsel determine what steps need to be taken to ensure Monroe County follows the agreement in regards to the local option sales tax collections.

Response – We will consult with our attorney in relation to this.

Conclusion – Response accepted.

- II-F-06 Firefighter Grant – The City received a grant from the Department of Homeland Security. Federal regulations require that procedures be in place to ensure minimal time elapses between the date of receipt of the federal funds and the related disbursement of those funds. For part of this grant, six months elapsed between the date of receipt of those funds and the related disbursement of those funds.

Recommendation – The City implement procedures to ensure federal funds received are spent in a timely manner.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

II-G-06 Airport Grant – The City received a grant from the Federal Aviation Administration for airport improvements. The contractors on this project are required to pay the prevailing wages as established by the State of Iowa. Our review noted that in one case it appears the payment of prevailing wages was not met, and in other cases, it is unclear if the prevailing wages were in fact paid as required.

The City did not apply for a sales tax refund on a completed construction project at the airport. In addition, in one case it is unclear if the contractor met the time requirements to complete a project because the notice to proceed to the contractor was not found, and in another case, the City did not assess liquidated damages on the contractor as required by the contract.

Recommendation – The City consult with legal counsel and determine the appropriate method to address the above issues. In addition, the City should implement procedures to ensure all legal and contractual requirements are met on future construction contracts.

Response – We will implement these recommendations.

Conclusion – Response accepted.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 3006

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NONCOMPLIANCE:**

**CFDA Number 14.228: Community Development Block Grants/State's Program**  
**Pass-through Agency Number 04-WS-003**  
**Federal Award Year: 2004**  
**U.S. Department of Housing and Economic Development**  
**Passed through the Iowa Department of Economic Development**

III-A-06 Claims – A list of claims allowed in relation to the federal programs was not consistently published in the newspaper as required by the Code of Iowa. See item IV-F-06.

**REPORTABLE CONDITIONS:**

**CFDA Number 14.228: Community Development Block Grants/State's Program**  
**Pass-through Agency Number 04-WS-003**  
**Federal Award Year: 2004**  
**U.S. Department of Housing and Economic Development**  
**Passed through the Iowa Department of Economic Development**

III-B-06 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-06.

III-C-06 Cash Management – The Community Development Block Grant agreement requires that the City not have more than \$500 of grant proceeds on hand for a period longer than 10 working days. We noted instances where more than ten working days elapsed between receipt of the grant funds and the date the related disbursement to the vendor cleared the bank.

Recommendation – The City implement procedures to ensure the cash management provisions in relation to the Community Development Block Grant are met.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part IV: Other Findings Related to Statutory Reporting:**

- IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works and culture and recreation functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation. In addition, the beginning budget amounts recorded on the budget amendment did not agree with the ending budget amounts recorded on the original budget as approved by the City Council.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, procedures should be implemented to ensure the amended budget reconciles to the original budget.

Response – The budget will be amended in the future, if applicable. Also, procedures will be implemented to ensure the amended budget reconciles with the original budget.

Conclusion – Response accepted.

- IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Robert Reed, Planning and Zoning Commissioner and Historic Preser- vation Board; Owner, R & H Construction	Construction Work	\$49,846
Jan Haselhuhn, Council Member; Owner R & H Construction		
Ray Vitko, Jr., Planning and Zoning Commissioner and Fireman, Owner of Vitko's Sinclair	Service Trucks	\$282
Warren Woolums, Fireman Truck Service	Service Trucks	\$600

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions with the Firemen do not appear to represent conflicts of interest since total transactions with each individual was less than \$1,500 during the fiscal year. The transactions with R&H Construction do not appear to represent a conflict of interest since it was entered into through competitive bidding.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not. The Cooper Estate Bequest Fund and Historical Preservation Board invoices were not approved by the Council.

A summary of all receipts was not published in the newspaper. Some Council minutes, and related claims, were not published in the newspaper. All of this is required by Chapter 372.13(6) of the Code of Iowa. An affirmative roll call vote and the specific reference to a Code section for entering into a closed session was not documented in the Council minutes as required by Chapter 21.5 of the Code of Iowa. Most of the Council minutes were not signed, as required by Chapter 380.7 of the Code of Iowa.

Recommendation - The City should implement procedures to ensure that all invoices are approved by the City Council. The City should also implement procedures to ensure that all invoices, a summary of all receipts and all Council minutes are published in the newspaper as required by the Code of Iowa. In addition, procedures should be implemented to ensure compliance with Chapter 21.5 of the Code of Iowa. Also, all minutes should be signed as required by the Code of Iowa.

Response - We will implement these recommendations.

Conclusion - Response accepted.

IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted. Interest income earned from the proceeds of debt and the accumulation of funds to pay debt were not credited to the project fund or the debt service fund as required by the Code of Iowa.

Recommendation – Interest income earned on the proceeds of debt and the accumulation of funds used to pay debt should be credited to the project fund and debt service fund, respectively.

Response – We will implement this recommendation.

Conclusion – Response accepted.

IV-H-06 Revenue Bonds and Notes - The City has complied with the revenue bond resolutions.

IV-I-06 Financial Condition – The balances in the Special Revenue Funds, Special Assessment Bonds and Proprietary Funds, Landfill appears to be excessive.

Recommendation – Procedures should be implemented to reduce the funds with excessive balances.

Response - We will continue to monitor this.

Conclusion - Response accepted.

City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- IV-J-06 Transfers – At June 30, 2006, \$1,820 was due from the Debt Service Fund to the Rural Fire Department Fund, \$1,403 was due from the Sewer Fund to the Employee Benefits Fund, \$7,558 was due from the Aquatic Center Fund to the General Fund, and \$13,450 was due from the Debt Service Fund to the Street Paving Project Fund.

Recommendation – The City make the above transfers.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- IV-K-06 Disbursements – There was not always documented receipt of merchandise or service prior to payment of the invoices. An instance was noted in which an invoice was not obtained prior to the payment of the claim. Void checks were not consistently retained.

Recommendation – We recommend the City implement procedures to ensure receipt of merchandise and services is documented prior to the payment of the invoices, and that invoices are obtained prior to the payment of the related claim. Also, all void checks should be retained.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- IV-L-06 Compliance Issues – Some general obligation bond principal and interest payments were not paid from the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa. Adjustments were subsequently made so that all general obligation bond principal and interest payments were charged to the Debt Service Fund. The City does not appear to be following the contract in regards to the Municipal Housing Agency payment in lieu of tax amounts. It does not appear the City applied for a sales tax refund on a completed construction project, which could amount to several hundred dollars.

Social Security was withheld on some police department wages, even though there is an agreement which states that Social Security will not be withheld. It appears the wage amounts as published in the newspaper are inaccurate. An instance was noted in which an IRS 1099-Misc. form was not issued as required.

Recommendation – The City should ensure that all general obligation bond principal and interest payments are paid from the Debt Service Fund. The City should follow the contract in relation to the Municipal Housing Agency payment in lieu of tax amounts, and apply for sales tax refunds on completed construction projects. The City should also not withhold Social Security from Police Department wages, and implement procedures to ensure the wage amounts published in the newspaper are accurate. Also, procedures should be implemented to ensure IRS 1099-Misc. forms are issued as required.

Response – We will implement these recommendations.

Conclusion – Response accepted.



City of Albia

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- IV-M-06 Receipts – Instances were noted where individuals did not pay the City rent for airplane hangers and farmland rent. The total uncollected receipts from these individuals amounts to over \$2,500. In June, 2006, the City averaged over \$1.2 million in its NOW bank account which earned .5% bank interest. For example, at June 30, 2006, interest rates on liquid funds invested in the Iowa Public Agency Investment Trust were over 4.5%. If City monies were invested in the Iowa Public Agency Investment Trust, the City could have earned an additional \$4,000 bank interest in the month of June, 2006.

Recommendation – The City implement procedures to ensure all monies due to them are received and deposited to the bank account. In order to earn more bank interest, the City should also be more aggressive in investing excess funds in higher yielding investments.

Response – We will review this and take appropriate action.

Conclusion – Response accepted.

- IV-N-06 Public Improvements – The City did not publish a notice of public hearing or hold a public hearing on a street repair job as required by Chapters 384.102 and 362.3 of the Code of Iowa. Also, the notice of public hearing on an airport project was not published between four and twenty days before the public hearing as required by Chapter 362.3 of the Code of Iowa.

Recommendation – Before entering into any contract for public improvements exceeding the Code of Iowa dollar requirements, the City should set a date for a public hearing and give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- IV-O-06 Authorized Signatory – The bank records show a former employee as an authorized signatory on a bank account.

Recommendation – The City remove the former employee as an authorized signatory on the bank account.

Response – We will implement this recommendation.

Conclusion – Response accepted.